



7535-01-U

NATIONAL CREDIT UNION ADMINISTRATION

Request for Comment Regarding National Credit Union Administration Operating Fee Schedule Methodology

AGENCY: National Credit Union Administration (NCUA).

ACTION: Request for comment.

SUMMARY: The NCUA Operating Budget has two primary funding mechanisms: (1) an Overhead Transfer, which is funded by federal credit unions (FCUs) and federally insured state-chartered credit unions (FISCUs); and (2) annual Operating Fees, which are charged only to FCUs. In a voluntary effort to invite input from stakeholders representing federal and state-chartered credit unions, the NCUA Board (Board) is simultaneously requesting comments on the methodologies for both funding mechanisms in separate notices in the **Federal Register**.

This request for comments focuses on the methodology NCUA uses to determine the aggregate amount of Operating Fees charged to federal credit unions, including the fee schedule that allocates the Operating Fees at different rates among FCUs according to various asset thresholds. While the NCUA Board is interested in all comments from the public and stakeholders, commenters are also asked to consider the following questions when responding: (1) Are the asset determination thresholds reasonable; and (2) is the method for forecasting projected asset growth for the credit union system reasonable? Responding to these questions will provide

valuable insight to the NCUA Board with respect to how the Operating Fee is administered. To be most instructive to the Board, commenters are encouraged to provide the specific basis for their comments and recommendations, as well as documentation to support their proposed adjustments or alternatives.

DATES: Comments must be received on or before **[INSERT DATE 90 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER]** to be assured of consideration.

ADDRESSES: You may submit comments by any of the following methods (**Please send comments by one method only**):

- NCUA Website: <http://www.ncua.gov>. Please follow the instructions for submitting comments under the “Board Comments” section of the NCUA website.
- E-mail: Address to boardcomments@ncua.gov. Include “[Your name]—Comments on Operating Fee Schedule Methodology” in the e-mail subject line.
- Fax: (703) 518-6319. Include your name and the following subject line: “Comments on Operating Fee Schedule.”
- Mail: Address to Gerard Poliquin, Secretary of the Board, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314-3428.
- Hand Delivery/Courier: Same as mail address.

Public Inspection: You can view all public comments on NCUA’s website at <http://www.ncua.gov/about/pages/board-comments.aspx> as submitted, except for those we cannot post for technical reasons. NCUA will not edit or remove any identifying or contact

information from the public comments submitted. You may inspect paper copies of comments at NCUA’s headquarters at 1775 Duke Street, Alexandria, Virginia 22314, by appointment weekdays between 9 a.m. and 3 p.m. To make an appointment, call (703) 518-6570 or send an e-mail to OCFOComments@ncua.gov.

FOR FURTHER INFORMATION CONTACT: Rendell Jones, Chief Financial Officer, National Credit Union Administration, 1775 Duke Street, Alexandria, Virginia 22314-3428 or telephone: (703) 518-6570.

Authority: 12 U.S.C. 1755.

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IV. Methodology for Determining the Operating Fee Schedule

I. Legal Background

NCUA charters, regulates and insures deposits in federal credit unions (FCUs) and insures deposits in state-chartered credit unions that have their shares insured through the National Credit Union Share Insurance Fund (Share Insurance Fund). To cover expenses related to its statutory mission, the Board adopts an Operating Budget in the fall of each year (Operating Budget). The Federal Credit Union Act (FCU Act) authorizes two primary sources to fund the Operating Budget: (1) requisitions from the Share Insurance Fund “for such administrative and

other expenses incurred in carrying out the purposes of [Title II of the FCU Act] as [the Board] may determine to be proper”;¹ and (2) “fees and assessments (including income earned on insurance deposits) levied on insured credit unions under [the FCU Act].”² The latter of fees are referred to herein as annual Operating Fees, which “may be expended by the Board to defray the expenses incurred in carrying out the provisions of [the FCU Act,] including the examination and supervision of [FCUs].”³

With regard to the Operating Fee, the FCU Act requires each FCU to, “in accordance with rules prescribed by the Board, . . . pay to the [NCUA] an annual operating fee which may be composed of one or more charges identified as to the function or functions for which assessed.”⁴ The fee must “be determined according to a schedule, or schedules, or other method determined by the Board to be appropriate, which gives due consideration to the expenses of the [NCUA] in carrying out its responsibilities under the [FCU Act] and to the ability of [FCUs] to pay the fee.”⁵ The statute requires the Board to, among other things, “determine the periods for which the fee shall be assessed and the date or dates for the payment of the fee or increments thereof.”⁶

Accordingly, the FCU Act imposes three requirements on the Board in connection with assessing an Operating Fee on FCUs: (1) the fee must be assessed according to a schedule or schedules, or

¹ 12 U.S.C. 1783(a).

² 12 U.S.C. 1766(j)(3). Other sources of income for the Operating Budget include interest income, funds from publication sales, parking fee income, and rental income.

³ 12 U.S.C. 1755(d).

⁴ 12 U.S.C. 1755(a).

⁵ 12 U.S.C. 1755(b).

⁶ *Id.*

other method that the Board determines to be appropriate, which gives due consideration to NCUA's responsibilities in carrying out the FCU Act and the ability of FCUs to pay the fee; (2) the Board must determine the period for which the fee will be assessed and the due date for payment; and (3) the Board must deposit collected fees into the Treasury to defray the Board's expenses in carrying out the FCU Act.

The Operating Fee methodology that this document describes meets all three legal requirements. First, the Board is assessing the Operating Fee under a schedule presented later in this document. The schedule sets forth assessment rates for FCUs based on asset size and takes account of NCUA's responsibilities in carrying out the FCU Act as well as the ability of FCUs to pay. Specifically, the schedule reflects consideration of NCUA's expenses in various areas of responsibility under the FCU Act and is scaled by asset size to account for the ability to pay. Second, this document specifies the applicable time period for the assessment, 2016, and notes that a later publication will update the due date. Third, NCUA will deposit collected fees in the United States Treasury, and the collected fees will fund some of NCUA's expenses in carrying out its responsibilities under the FCU Act.

II. Historical Practice in Assessing the Operating Fee

NCUA has a regulation that governs Operating Fee processes.⁷ The regulation establishes (i) the basis for charging Operating Fees (i.e., total assets), (ii) a notice process, (iii) rules for new charters, conversions, mergers, and liquidations, and (iv) administrative fees and interest for late payment, among other principles and processes.⁸ Certain aspects of and adjustments to the Operating Fee process, such as the asset tier of FCUs that are exempt from Operating Fees and

⁷ 12 CFR 701.6.

⁸ *Id.*

the multipliers that are used to determine fees applicable to higher asset tiers, are usually not published in the **Federal Register**. Instead, the Board traditionally set the Operating Fee during an open meeting each November, after determining the Operating Budget and Overhead Transfer at the same open meeting. At an open meeting in November 2015, the Board delegated authority to the Chief Financial Officer to administer the Board-approved Operating Fee methodology, and to set the Operating Fees as calculated per the approved methodology each annual budget cycle beginning with 2016.⁹

Although it is not required to do so under the Administrative Procedure Act, the Board now chooses to specifically solicit public comments on the methodology and process NCUA uses for the fee schedule through this **Federal Register** publication, as it has done on occasion in the past.

The Board adopted the current Operating Fee methodology in 1979, after Congress passed the Financial Institutions Regulatory and Interest Rate Control Act of 1978.¹⁰ This legislation permitted the Board to consolidate previously separate chartering, supervision, and examination fees into a single Operating Fee, charged “in accordance with schedules, and for time periods, as determined by the Board, in an amount necessary to offset the expenses of the Administration at a rate consistent with a credit union’s ability to pay.”¹¹ In combination with a proposed change to NCUA Regulation 12 CFR 701.6 in 1979, the Board proposed an initial fee schedule in the

¹⁰ 44 FR 11786 (Mar. 2, 1979).

¹⁰ 44 FR 11786 (Mar. 2, 1979).

¹¹ *Id.*

Federal Register, including rates for 12 asset tiers.¹² It later published a final rule in the **Federal Register**, which also included a finalized fee schedule for 1979.¹³

On three additional occasions, the Board has requested comments on potential changes to the Operating Fee schedule through a **Federal Register** notice, independent of any changes to 12 CFR 701.6. First, in 1990, the Board provided notice to the public that it was considering consolidating the Operating Fee schedule from 14 asset tiers to two asset tiers, retaining an exemption for FCUs under \$50,000 in assets and implementing a \$100 minimum fee.¹⁴ The Board provided a 60-day comment period.¹⁵

In 1990, the Board determined that current 14 asset tier Operating Fee scale was sharply regressive. In looking at the issue of fairness, the Board concluded the previous scale was no longer based fairly on the ability to pay, as evidenced by the rate for the smallest credit unions being \$2.41 per \$1,000 in assets, compared to \$0.07 per \$1,000 in assets for the largest credit unions, so that the burden on smaller credit unions had become significantly greater than on larger credit unions. In 1989, the Operating Fee was an average of 3.96 percent of expenses for credit unions in the lowest asset bracket, compared to 0.23 percent of expenses for the largest credit union. While a single rate was initially considered to be potentially more equitable, the fees from a single rate would have more than tripled for the largest credit unions. In 1990, the Board instead adopted a final two-bracket, two-rate structure proposal as the most feasible solution. In general, larger federal credit unions pay a higher dollar Operating Fee, but based on

¹² *Id.* at 11787.

¹³ 44 FR 27379 (May 10, 1979).

¹⁴ 55 FR 29857 (July 23, 1990).

¹⁵ *Id.*

a lower (regressive) rate. The Board considered this regressive rate approach to be the fairest method of balancing the competing concepts and views of larger federal credit unions' higher dollar fees paid as subsidizing smaller federal credit unions, and larger federal credit unions not receiving proportionally more service from NCUA for the fees they pay. The Board-adopted proposal in 1990 exempted credit unions with assets under \$50,000, set a minimum fee of \$100, established two brackets with \$250 million in assets as the dividing line between the two, and allowed the dividing points to be changed based on projected asset growth. The proposed fee structure did even out the effect on credit unions. For credit unions between \$250,000 and \$1 million in assets, the fee was 0.58 percent of expenses, down from 3.00 percent, and for credit unions over \$1 billion in assets, the fee was 0.33 percent of expenses, up from 0.25 percent.

In restructuring the scale in 1990, the Board also established a policy that the asset level dividing points between the brackets be adjusted annually or "indexed" in accordance with the projected asset growth of federal credit unions. This indexing was made in order to preserve the same relative relationship of the scale to the asset base to which it is applied.

Two years later, the Board adopted a new third bracket at its open Board meeting in late 1992 that applied to assets exceeding \$1 billion. The Board made this change in the interest of fairness to all credit unions. At that time, there were four federal credit unions with assets over \$1 billion. The current approach to the fee schedule for natural-person FCUs continues to use three asset tiers.

Second, also in 1992, the Board requested comments on a plan to limit Operating Fees to the first \$1 million of each FCU's assets.¹⁶ The Board provided a 30-day comment period.¹⁷ It later extended the comment period by an additional 20 days.¹⁸

Third, in 1995, the Board requested comments on a plan to restructure the Operating Fee schedule for natural-person FCUs, to exempt FCUs with assets of \$500,000 or less.¹⁹ It also requested comments on imposing a minimum fee of \$100 on all natural-person FCUs with assets over \$500,000 but less than or equal to \$750,000.²⁰ The Board provided a 30-day comment period.²¹

The Board did not publish a response to the comments in the **Federal Register** in any of the cases referenced above. Instead, it adopted changes at open Board meetings. At its open meeting on November 12, 1992, for example, rather than eliminating fees for FCUs with assets under \$1 million as proposed in the **Federal Register**, the Board adopted a third rate of 0.0003 for that asset tier.²² At its open meeting on November 16, 1995, after a discussion of the comments received, the Board adopted changes as proposed in the **Federal Register**, exempting FCUs under \$500,000 in assets and imposing a \$100 fee on FCUs with between \$500,000 and \$750,000 in assets.²³

¹⁶ 57 FR 34152 (Aug. 3, 1992).

¹⁷ *Id.*

¹⁸ 57 FR 38329 (Aug. 24, 1992).

¹⁹ 60 FR 32925 (June 26, 1995).

²⁰ *Id.*

²¹ *Id.*

²² Board Action Memorandum on Operating Fee Assessment for Fiscal Year 1993 (Nov. 12, 1992).

²³ Minutes of Board Meeting, National Credit Union Administration, p. 2 (Nov. 16, 1995); Board Action Memorandum on Fiscal Years 1995 and 1996 Budget (Nov. 16, 1995).

In general, since 1995, the Board has not used **Federal Register** notices in connection with the annual adjustments to the asset tiers and rates of the Operating Fee schedule. In the past, the Board has opted to adopt such changes at open meetings. As recently as 2012, for example, the Board increased the asset threshold used to exempt FCUs from Operating Fees from \$500,000 to \$1 million at an open meeting without requesting advance comment in the **Federal Register**.²⁴ While the Board has varied its practice with respect to fee schedule changes, it has done so within the FCU Act's broad directive that the fee schedule should be as "determined by the Board to be appropriate," subject to its consideration of its expenses and the ability of FCUs to pay.²⁵ In addition, NCUA's existing regulation on Operating Fee processes includes a standing invitation for written comments from FCUs on existing fee schedules.²⁶

III. Methodology for Determining the Aggregate Operating Fee Amount

The Board adopts an Operating Budget in the fall of each year. The Operating Budget provides the resources required to execute the goals and objectives as outlined in NCUA's strategic plan. NCUA develops its Operating Budget using zero-based budgeting techniques, which ensure each activity is properly justified before the Board considers it for funding.²⁷ As discussed above, two primary sources fund the Operating Budget: (1) the Overhead Transfer Rate (OTR); and (2) FCU Operating Fees. The following summarizes the various adjustments to arrive at the FCU Operating Fee and is illustrated below in Table 1.

²⁴ Board Action Memorandum on 2013 Operating Fee (Nov. 15, 2012).

²⁵ 12 U.S.C. 1755(b).

²⁶ 12 CFR 701.6(c).

²⁷ Additional information on the NCUA budget may be found at the following Web address: <http://www.ncua.gov/About/Pages/budget-strategic-planning/supplementary-materials.aspx>.

Adjustments to the Budget. When calculating the aggregate annual Operating Fee requirements, the Board first subtracts amounts transferred for operational expenses from the Share Insurance Fund through the Overhead Transfer Rate and other expected income amounts from the operating budget for that year.

Overhead Transfer Rate: The FCU Act authorizes NCUA to expend funds from the Share Insurance Fund for administrative and other expenses related to federal share insurance.²⁸ An Overhead Transfer from the Share Insurance Fund covers the expenses associated with insurance-related functions of NCUA's operations. The Overhead Transfer is one of the funding sources for the budget, but the Overhead Transfer Rate does not affect the amount of the budget. The Board approves the budget separately and without regard to the Overhead Transfer Rate. The Overhead Transfer Rate is applied to actual expenses incurred each month.²⁹

Other Income: Other income reduces the required Operating Fees by providing an additional source of funds to cover regulatory (i.e., non-insurance) related aspects of operating NCUA. Other income is projected based on the latest financial statements and includes interest income and miscellaneous revenues. Interest income includes interest on investments of annual Operating Fees not needed for current operations. Such investments may be made only in interest-bearing securities of the United States, with maturities requested by the Board, bearing

²⁸ 12 U.S.C. 1783(a).

²⁹ In November 2015, the Board delegated authority to the Director of the Office of Examination and Insurance to administer the methodology approved by the Board for calculating the Overhead Transfer Rate, and set the rate as calculated per the approved methodology and validated by the Chief Financial Officer each budget cycle, beginning with the rate for 2016. Board Action Memorandum on Overhead Transfer Rate Delegation (Nov. 19, 2015), <https://www.ncua.gov/About/Documents/Agenda%20Items/AG20151119Item5a.pdf>.

interest at rates determined by the Secretary of the Treasury.³⁰ Other income includes miscellaneous revenues, such as proceeds from publication sales, parking fee income, and rental income. Publication sales include proceeds from the sale of printed publications and brochures. NCUA leases office space to commercial tenants in its Central Office building and recognizes rental income in accordance with generally accepted accounting principles (GAAP). NCUA's Central Office has a parking garage and NCUA collects income on parking fees, which are divided among the complex owners according to the percentage of parking garage space owned by each.

Adjustments for cash and non-cash needs. The balance remaining after removing the Overhead Transfer amount and other expected income is then adjusted for cash and non-cash needs. Cash needs include additions for capital acquisitions and the payment of the note payable for the NCUA Central Office building on King Street. Non-cash needs include deductions for accrued annual leave and depreciation. Additional deductions or additions to cash needs are necessary to maintain a sufficient cash reserve to continue NCUA's operations. Operating Fund Mid-Session adjustments may also result in changes to cash needs, normally in the form of a reduction.

Sufficient Cash Reserves: NCUA's policy for the Operating Fund is to maintain cash reserves of at least one month for contingencies.³¹ Cash requirements are projected to last approximately 15 months from the end of the current budget year, until the subsequent Operating Fee collections

³⁰ 12 U.S.C. 1755(e)(2)

³¹ 2016 Operating Fee BAM

are received from FCUs. NCUA sends an annual Letter to FCUs that establishes the Operating Fees for the coming year.³² It then provides invoices that require payment by April 15.

Accrued Annual Leave: Accrued annual leave is the change in the economic value of earned, but unpaid annual leave for current NCUA employees. It is a non-cash expense under GAAP and therefore is excluded when determining the required Operating Fees. NCUA uses historical data to determine the annual amount of accrued annual leave.

Depreciation: Capital acquisitions are investments in assets including information technology software and building improvement projects. Depreciation is a reduction in the value of an asset with the passage of time. For NCUA's Operating Budget, depreciation expenses are included for assets such as NCUA's Central Office building, furniture and equipment, and leasehold improvements. The Share Insurance Fund covers a percentage of the depreciation expenses based on the OTR. The cash needs of all budgeted capital acquisitions are added to the FCU Operating Fee requirements.

Repayment of NCUA Central Office on King Street, Note Payable. In 1992, the Operating Fund entered into a commitment to borrow up to \$42.0 million in a 30-year secured term note with the Share Insurance Fund to fund the costs of constructing NCUA's Central Office in 1993. Since the Operating Fund borrowed monies from the Share Insurance Fund, the annual scheduled principal payments are excluded from the OTR and Overhead Transfer amount. The annual

³² <https://www.ncua.gov/Resources/Documents/LFCU2015-01.pdf>

scheduled principal payments are treated as a cash need and applied as an increase to Operating Fee requirements.

Operating Fee Requirements. The amount remaining after adjustments for all cash and non-cash needs is the total budgeted Operating Fee requirements. The total budgeted Operating Fee requirements (i.e., line 11 below) represents Operating Fees for both natural-person and corporate FCUs. The natural-person FCU Operating Fees required (i.e. line 13 below) is determined by deducting the corporate FCU Operating Fees (i.e. line 12 below) from the total budgeted Operating Fee requirements (i.e., line 11 below).

TABLE 1—OPERATING FEE CALCULATION FACTORS AND EXPLANATION

Natural-Person Federal Credit Union Operating Fee Calculation Factors and Explanation		Calculation Formula
1...	Proposed Annual Operating Fund Budget amount determines the baseline fee requirement.
2...	Overhead Transfer Rate calculated from the examiner time survey results, determines the amount of the budget to be reimbursed by the Share Insurance Fund. This amount is subtracted from the proposed budget amount.	$OTR\% \times 1$
3...	Interest Income projected for the year is estimated based on the latest financial statements, and is subtracted from the budget.
4...	Miscellaneous (rents, publication fees, FOIA fees) is estimated based on the latest financial statements, and is subtracted from the budget.
5...	Net Adjustment to Budget	Sum lines 1 - 4
6...	Reduction of any Operating Fund Mid-Session return adjustment.....	<i>reduce cash collections</i>
7...	Reduction of Accrued Annual Leave (based on historical annual amounts).....	<i>reduce cash collections</i>
8...	Depreciation (e.g. building, leasehold, and equipment estimate)	<i>reduce cash collections</i>
9...	New investment projects requested in capital budget	<i>increase cash collections</i>
10...	Annual payment of King Street Note Payable (scheduled principal payments)	<i>increase cash collections</i>
11...	Budgeted Operating Fee/Capital Requirements	Sum lines 5 - 10
12...	Corporate federal credit union fees are collected and subtracted from natural-person credit union fee requirement (based on corporate credit union scale)
13...	Natural-Person Federal Credit Union Operating Fees Required	Sum lines 11 - 12
14...	Estimated Fee collections for end of year (December 31). This projection uses the current Operating Fee scale with estimated asset growth from an internal NCUA economic forecasting models. Based on the June 30 assets, the year-end assets are projected using the estimated asset growth to calculate fee collection estimates for the following year. The Operating Fee assessment is applied against the year-end credit union asset value.
15...	Difference between estimated Operating Fee collections and projected collections based on estimated asset growth.	Difference between lines 13 and 14

IV. Methodology for Determining the Operating Fee Schedule

The corporate credit union fee schedule was established in 1979 and has changed little over the years. In fact, for many years, the Operating Fee scale remained virtually unchanged. The main driver for no change is the concept that corporate FCUs hold assets of natural-person credit unions, which are already assessed under the natural-person Operating Fees. Assessing corporate FCUs at the same rate would, effectively, assess the same assets twice. Corporate FCUs return a large portion of their earnings to natural-person FCUs in the form of lower fees and higher dividends. Raising Operating Fee assessments for corporate FCUs would result in higher expenses for corporate FCUs. Corporate FCUs would need to pass the higher expenses to natural-person FCUs in the form of higher fees and lower investment yields. The corporate credit union fee schedule is a method of charging corporate FCUs a supervisory fee to defray costs. Table 2 below outlines the 2016 corporate FCU Operating Fee schedule:

TABLE 2—Corporate Federal Credit Union Operating Fee Schedule

If total assets are over	But not over -	The Operating Fee assessment is:
\$50,000,000.....	\$100,000,000.....	\$10,593.90 plus 0.0001987 of the total assets over \$50,000,000
\$100,000,000.....	No limit.....	\$20,528.90 plus 0.0000123 of the total assets over \$100,000,000

As stated above, the Board delegated authority to the Chief Financial Officer to administer

the methodology approved by the Board for calculating the Operating Fees and to set the fee schedule as calculated per the approved methodology beginning in 2016. After determining the Operating Fee requirements for natural-person FCUs (i.e., line 13 above), the Chief Financial Officer creates the natural-person FCU Operating Fee schedule for the upcoming year. Table 3 below outlines the 2016 Operating Fee schedule for natural-person FCUs.

TABLE 3—Natural-Person Federal Credit Union Operating Fee Schedule

If total assets are more than \$1,000,000, the Operating Fee assessment is:

Assessment Rates		Asset Tiers	
0.00018198.....	on the first.....	\$1,275,170,573.....	of assets, plus
0.00005304.....	on the next.....	\$2,583,476,422.....	of assets, plus
0.00001771.....	on assets over.....	\$3,858,646,995	

A different assessment rate is applied to each tier. FCUs with \$1 million or less in assets pay no Operating Fee.

There are two primary steps used to determine the adjustments to the Operating Fee schedule for the upcoming year. They are: (1) updating the prior year asset tiers using the projected asset growth rate; and (2) updating the prior year assessment rates for each asset tier by determining the average assessment rate adjustment.

Updating prior year asset levels. The first step in determining the new Operating Fee schedule is to increase each asset tier from the prior year by the projected asset growth rate. Assets are

indexed annually to preserve the same relative relationship of the scale to the applicable asset base.

The projected asset growth rate is a forecast of FCU asset growth rates for a year. NCUA's Office of Chief Economist (OCE) uses three different methods to forecast asset growth and combines them to generate an overall asset growth rate forecast.

Forecasting Method #1: Uses Call Report data for the first half of the year to predict full-year asset growth. This is done by first calculating the ratio of first-half asset growth to full-year asset growth. The percentage of full-year growth accounted for by first-half asset growth varies from year to year but, on average, nearly 80 percent of the asset growth for FCUs occurs in the first half of the year. Using the growth rate in the first half of the year, OCE projects the full-year growth rate.

Forecasting Method #2: Uses Call Report data to determine the most recent four-quarter growth rate and sets this rate to the full-year asset growth rate. This approach is based on the idea that an FCU is likely to establish and maintain a relatively constant growth rate over a short period, after accounting for variations in the growth rate that is attributable to seasonal fluctuations. This implies that a good forecast of full-year asset growth is the most recently available four-quarter asset growth.

Forecasting Method #3: Uses a time series statistical model. Using quarterly Call Report data, OCE predicts future four-quarter asset growth using the four-quarter growth in assets for the period ending two quarters earlier (that is, four-quarter asset growth lagged two quarters).

Combined Forecast: In general, forecasting literature shows that combining forecasts from different approaches can improve forecast accuracy and decrease the likelihood of forecast errors. Using the root mean squared error statistic to calculate the accuracy of the individual approaches and combined forecast approaches, OCE has found that the combined forecast approach is better at predicting the final asset growth rate than any of the individual approaches. OCE therefore averages the forecasts from the three approaches to maximize accuracy.

Updating the prior year's assessment rates. After updating the prior year asset tiers, the next step is to project Operating Fees using the updated asset tiers and the prior year assessment rates charged to each tier. The percentage difference between the projected Operating Fees (i.e., line 14 above) and the required Operating Fees (i.e., line 13 above) is the average rate adjustment (i.e., line 16 above).

The average rate adjustment (i.e., line 16 above) is used to amend the prior year's assessment rates for each asset tier either upwards or downwards. If the projected amount of Operating Fees is less than the required amount, then the assessment rates for each asset tier are adjusted upwards. If the projected amount is more than the required amount, then the assessment rates for each asset tier are adjusted downwards.

The resulting new Operating Fee schedule and due date are communicated via a Letter to Federal Credit Unions and posted to www.NCUA.gov at least 30 days in advance of the due date. No later than March of each year, natural-person FCUs with assets greater than \$1 million will receive an invoice for their Operating Fee. Operating Fees are based on actual assets reported as of December 31 of the previous year. NCUA combines the annual Operating Fee and capitalization deposit adjustment into a single invoice normally due in April. As required by the FCU Act, NCUA will deposit the collected fees in the United States Treasury.

By the National Credit Union Administration Board on January 21, 2016.

Gerard Poliquin

Secretary of the Board

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